

**00708**

**1985/04/04**



BUREAU OF  
INTELLIGENCE  
AND RESEARCH

CURRENT  
ANALYSES

~~CONFIDENTIAL~~

~~NOT RELEASABLE TO FOREIGN NATIONALS~~

3

RELEASED

(U) CHINA: "UNHEALTHY TENDENCIES" HERALD  
PERIOD OF CONSOLIDATION

Summary

China's reformers appear to have stumbled over unexpectedly serious problems of corruption and inflation. The road to reform only months ago appeared to be smooth and without major obstruction. The Dengists have temporarily slowed their momentum to protect their flanks against charges that their reforms are creating too many negative side effects. Deng Xiaoping and his associates may again have to make some compromises--especially in their ambitious plans for leadership changes--if they are to stay the course.

\* \* \* \* \*

Leadership Commitment to Reform

Premier Zhao Ziyang's report to the National People's Congress last week highlights the continuing dilemma faced by the reformers. They are torn between their firm intention to press ahead with comprehensive economic reform and their need to preempt opposition exploitation of abuses stemming from the reforms. Despite recent efforts to head off a conservative backlash, there are signs that the current crackdown on corruption, price gouging, and the awarding of unwarranted pay raises may be indirectly undermining reformers' efforts to retire or oust their opponents.

Zhao, speaking at the Third Session of the Sixth National People's Congress on March 27, demonstrated the leadership's concern over both the growth of corruption and incipient inflation. At the same time, he signaled a strong commitment to continued reform--including key price and wage

~~CONFIDENTIAL~~

Declassify: OADR (Taylor, J.)

United States Department of State  
Office of FOI, Privacy, & Classification Review  
Review Authority: MARTENSR  
Date: 09/07/96  
Case ID: 940321

~~CONFIDENTIAL~~

Report 1049-CA  
April 4, 1985

~~CONFIDENTIAL~~

- 2 -

reforms--but at a slower pace and with greater attention to negative side effects. Zhao revealed that during the last quarter of 1984 poorly controlled credit, unwarranted pay raises, arbitrary price hikes, and excessive issuing of currency had become significant problems and "should be dealt with in real earnest." His prescription: "Be steadfast [in pursuing reform], be prudent in fighting the first battle and be sure to win."

#### Opposition Exploiting Reform Abuses

Zhao's tongue lashing of those whose malfeasance is undermining reform testifies to the reformers' sensitivity to criticisms that their program is leading to inflation, erosion of living standards, and widespread corruption. In the past several weeks, media coverage of the crackdown on corruption in particular suggests that conservatives are trying to use these issues to undermine the reform program and to evade the retirement Deng has planned for them later this year. Following Deng's March 7 speech to a national science work conference decrying corruption and the spreading effects of "bourgeois ideology" among China's youth, Chinese media widely called for greater party spirit and social discipline--themes usually associated with conservative opponents of reform. This was followed by the March 17 publication of an article in the hard-line Worker's Daily calling for "no spiritual pollution on the ideological front," a prominent theme from the 1983 "spiritual pollution" campaign.

The apparent effort to use emerging problems to undermine the reforms may have alarmed the reformers, sparking an effort to nip it in the bud.. Two days after the "spiritual pollution" article appeared, the authoritative People's Daily printed an article titled, "There Must Not Be a Blockade in Ideology Either"-- apparently a direct repudiation of Worker's Daily and a rebuke to opponents of opening to the West. A few days later, People's Daily reminded its readers that the reforms' "advantages outweigh disadvantages" and that perfection in their implementation should not be expected.

#### Reformers May Have To Compromise

Deng's recent comments to a visiting group of American journalists seem to encapsulate the current dilemma facing the reformers:

--On the one hand, the reformers want to take advantage of their momentum to push through controversial changes, including price and wage reforms. In late March, for example, Deng himself endorsed a rapid timetable for reform, suggesting that implementation of urban reform will take about three years. Previously, the leadership's mainstream estimate was

~~CONFIDENTIAL~~

- 3 -

three to five years to achieve major successes, with only the more impetuous party head Hu Yaobang implying that the reforms could be completed in as little as three years.

--On the other hand, the reformers also are mindful of the political fallout of the "unhealthy tendencies." Deng told the same group of Americans that while small problems are inevitable, China can afford no big problems. Given the conservative reaction, the question is whether a big problem is brewing--particularly insofar as the reforms point increasingly to retirements and personnel changes.

Indeed, there are already signs that, despite the reformers' efforts to head off a conservative backlash, the crackdown on corruption and inflationary pressures may be undermining their efforts to retire or oust conservative leaders. In a rare appearance with foreigners, party propaganda department director Deng Liqun--thought to be in political limbo for his opposition to the reforms--forewarned the visiting American journalists about the tough tone Zhao's speech would take on enforcing tighter control over credit, wages, prices, and consumption. Deng Liqun and other conservatives--including Hu Qiaomu and representatives of Chen Yun's party discipline inspection commission--have been issuing warnings about inflation and lack of discipline for months, even as Deng Xiaoping and Hu Yaobang have been trying to retire them. Their having been "proved right" complicates those efforts.

Last February, Bank of China president Jin Deqin reportedly was removed for malfeasance. However, the mid-March transfer of Chen Muhua--a member of the conservative camp and long thought to be in political trouble--from minister of foreign trade to president of China's central bank, the People's Bank, may demonstrate the kind of compromise the reformers will have to make in coming months. Although Chen has little background in finance, her solid conservative credentials and her positions as an alternate Politburo member and as state councilor will bring considerable political clout and bureaucratic expertise to her new task of enforcing tighter control over loans, wages, prices, and the money supply. The previous People's Bank president was apparently demoted at least partly for the bank's failure to control the issuance of currency and loans last year and partly for his failure to supervise his subordinate, the president of the nation's foreign exchange bank.

Prepared by Christopher Clarke  
632-0908

Approved by Louis G. Sarris  
632-1179

~~CONFIDENTIAL/NOT RELEASABLE TO FOREIGN NATIONALS~~